

ALTERNATIVE FORECASTS

Global Insight has assigned a 60% probability of occurrence to its October 2008 baseline forecast of the U.S. economy. The major features of this forecast include:

- Real GDP increases 1.5% in 2008, 0.2% in 2009, 2.4% in 2010, and 3.1% in 2011;
- U.S. nonfarm employment falls 0.1% in 2008, drops another 1.0% in 2009, grows 0.8% in 2010, and 1.7% in 2011;
- the annual U.S. civilian unemployment rate climbs to a peak of 7.4% in 2010 then gradually declines to 6.9% in 2011;
- consumer inflation is 4.3% in 2008, 1.3% in 2009, 2.1% in 2010, and 2.4% in 2011;
- the current account deficit is \$698 billion in 2008, \$536 billion in 2009, \$580 billion in 2010, and \$666 billion in 2011;
- the federal unified budget deficit is \$406 billion in 2008, \$787 billion in 2009, \$592 billion in 2010, and \$504 billion in 2011.

OPTIMISTIC SCENARIO

Global Insight's *Optimistic Scenario* has been assigned a 15% probability of occurrence. In this scenario, the rapid response of the Federal Reserve to the crisis in financial markets, coupled with the U.S. Treasury's rescue plan and help from foreign central banks, help avert a severe U.S. economic downturn. In addition, stronger total factor productivity growth is stronger than in the baseline forecast, which helps rein in inflation despite the stronger expected growth. Credit flows more freely in this scenario, helping housing starts average 967,000 units next year, compared to the 796,000 units projected in the baseline case. Likewise, the outlook for business fixed investment is brighter in the *Optimistic Scenario*. It experiences a modest 2.1% contraction in 2009 followed by a 5.1% expansion in 2010. In comparison, it suffers a deeper 6.1% decline in 2009 and ekes out a mild 1.4% recovery in 2010 in the baseline case. Both foreign economic growth and the dollar are stronger in this scenario. Finally, thanks to stronger demand, energy prices are higher in this scenario than in the baseline. However, they are lower in the long run, reflecting more-optimistic assumptions about supply.

On net, these assumptions paint a much brighter future for the economy. Real GDP ekes out 0.2% growth in the third quarter and a small decline of 0.5% in the fourth quarter of 2008. Growth, albeit sluggish, returns in the first quarter of 2009 before accelerating to near-trend levels during the rest of the year. On an annual basis, real GDP rises 1.1% in 2009 versus 0.2% in the baseline. The unemployment rate peaks at 6.8% at the close of next year, which is lower than the 7.5% peak in the baseline forecast. Nonfarm payroll employment shrinks by 87,300 jobs over the four quarters beginning with this year's third quarter, which is much fewer than the 1.8 million jobs shed during the baseline forecast's seven-quarter employment slide.

Thanks to the stronger national economy, Idaho nonfarm employment declines just 0.7%, which is just half the pace expected in the baseline case. This gives it a head start in the job gains race, helping it to grow to nearly 673,500 jobs by 2011—2,600 more jobs than in the baseline. Interestingly, all of the advantage comes from the nongoods-producing sector that is about 4,000 higher in 2011 than its baseline counterpart. This advantage more than offsets the change in goods-producing employment, which has about 1,400 fewer jobs than in the baseline. The outlook for Idaho nominal personal income improves in each year, and reaches \$56.8 billion in 2011, which is \$0.9 billion more than the baseline's

IDAHO ECONOMIC FORECAST

BASELINE AND ALTERNATIVE FORECASTS

OCTOBER 2008

	BASELINE				OPTIMISTIC				PESSIMISTIC			
	2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
U.S. GDP (BILLIONS)												
Current \$	14,352	14,655	15,240	15,983	14,375	14,905	15,625	16,394	14,324	14,300	14,613	15,293
% Ch	3.9%	2.1%	4.0%	4.9%	4.1%	3.7%	4.8%	4.9%	3.7%	-0.2%	2.2%	4.7%
2000 Chain-Weighted	11,694	11,717	11,997	12,369	11,707	11,839	12,167	12,537	11,669	11,441	11,534	11,833
% Ch	1.5%	0.2%	2.4%	3.1%	1.6%	1.1%	2.8%	3.0%	1.3%	-2.0%	0.8%	2.6%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	49,176	50,677	52,760	55,947	49,191	51,026	53,392	56,769	49,163	50,156	51,484	54,361
% Ch	3.4%	3.1%	4.1%	6.0%	3.5%	3.7%	4.6%	6.3%	3.4%	2.0%	2.6%	5.6%
U.S. (Billions)	12,174	12,503	12,966	13,624	12,184	12,671	13,265	13,938	12,165	12,298	12,485	13,086
% Ch	4.4%	2.7%	3.7%	5.1%	4.5%	4.0%	4.7%	5.1%	4.3%	1.1%	1.5%	4.8%
PERSONAL INCOME - 2000 \$												
Idaho (Millions)	40,304	40,948	41,900	43,532	40,304	41,076	42,111	43,910	40,320	40,818	41,101	42,082
% Ch	-0.2%	1.6%	2.3%	3.9%	-0.2%	1.9%	2.5%	4.3%	-0.2%	1.2%	0.7%	2.4%
U.S. (Billions)	9,978	10,103	10,298	10,601	9,983	10,200	10,462	10,781	9,977	10,009	9,967	10,130
% Ch	0.7%	1.3%	1.9%	2.9%	0.7%	2.2%	2.6%	3.0%	0.7%	0.3%	-0.4%	1.6%
TOTAL NONFARM EMPLOYMENT												
Idaho	651,693	642,807	651,780	670,812	652,117	647,253	656,653	673,462	651,356	637,102	640,868	655,681
% Ch	-0.7%	-1.4%	1.4%	2.9%	-0.6%	-0.7%	1.5%	2.6%	-0.8%	-2.2%	0.6%	2.3%
U.S. (Thousands)	137,496	136,102	137,150	139,455	137,647	137,795	139,469	141,425	137,401	134,478	133,853	135,561
% Ch	-0.1%	-1.0%	0.8%	1.7%	0.0%	0.1%	1.2%	1.4%	-0.2%	-2.1%	-0.5%	1.3%
GOODS-PRODUCING SECTOR												
Idaho	113,851	104,193	103,248	107,480	113,950	105,041	103,701	106,088	113,769	102,566	101,089	104,138
% Ch	-7.7%	-8.5%	-0.9%	4.1%	-7.6%	-7.8%	-1.3%	2.3%	-7.8%	-9.8%	-1.4%	3.0%
U.S. (Thousands)	21,480	20,393	19,947	20,323	21,514	20,710	20,307	20,496	21,449	19,954	18,961	19,194
% Ch	-3.3%	-5.1%	-2.2%	1.9%	-3.2%	-3.7%	-1.9%	0.9%	-3.5%	-7.0%	-5.0%	1.2%
NONGOODS-PRODUCING SECTOR												
Idaho	537,842	538,614	548,532	563,331	538,167	542,212	552,951	567,375	537,588	534,536	539,779	551,543
% Ch	0.9%	0.1%	1.8%	2.7%	1.0%	0.8%	2.0%	2.6%	0.9%	-0.6%	1.0%	2.2%
U.S. (Thousands)	116,017	115,709	117,203	119,133	116,134	117,085	119,162	120,929	115,952	114,523	114,892	116,367
% Ch	0.5%	-0.3%	1.3%	1.6%	0.6%	0.8%	1.8%	1.5%	0.5%	-1.2%	0.3%	1.3%
SELECTED INTEREST RATES												
Federal Funds	2.2%	1.2%	2.9%	4.6%	2.2%	1.5%	2.6%	4.1%	2.2%	0.5%	1.5%	4.9%
Bank Prime	5.2%	4.2%	5.9%	7.6%	5.2%	4.5%	5.6%	7.1%	5.2%	3.5%	4.5%	7.9%
Existing Home Mortgage	6.1%	5.7%	6.5%	7.2%	6.1%	5.8%	6.4%	7.0%	6.2%	5.5%	6.1%	7.6%
INFLATION												
GDP Price Deflator	2.5%	1.9%	1.6%	1.7%	2.5%	2.5%	2.0%	1.8%	2.5%	1.8%	1.4%	2.0%
Personal Cons Deflator	3.7%	1.4%	1.7%	2.1%	3.7%	1.8%	2.1%	2.0%	3.6%	0.8%	1.9%	3.1%
Consumer Price Index	4.3%	1.3%	2.1%	2.4%	4.4%	1.8%	2.4%	2.2%	4.2%	0.3%	2.1%	3.5%

Forecast Begins the **THIRD** Quarter of 2008

\$55.9 billion. Idaho real personal income also outpaces its baseline counterpart to a total of \$43.9 billion in 2011. It is \$43.5 billion in the *Baseline Scenario*.

PESSIMISTIC SCENARIO

The *Pessimistic Scenario* has been assigned a 25% probability of occurrence. This Scenario assumes the financial crisis worsens, sending the economy into a tailspin. Credit markets remain clogged, both domestically and across the world. Without access to credit, domestic spending contracts, and the housing market falls into an even deeper hole. The spread between 30-year fixed mortgage rates and the 10-year Treasury note yield remains wider than normal into 2010. Housing starts slip below one million units in 2008 (921,000) and 2009 (679,000) for the first time since 1945. The median price of existing homes and home sales are much weaker than in the baseline case. This weakness undermines consumer confidence which, along with the drop in household wealth and job market jitters, cause consumers to tighten their purse strings. Companies also retrench and scuttle long-term projects, causing business fixed investment to slide over seven-straight quarters. The economic malaise is not limited to the U.S., however. Foreign economic growth is slower, causing U.S. exports to add only 0.3 and 0.4 percentage point to growth in 2009 and 2010. In the baseline case, it adds 0.7% in 2009 and 0.8% in 2010. One positive aspect of the weaker outlook is inflation is lower than anticipated in the *Baseline Scenario*.

In this scenario, the economy enters a five-quarter recession beginning in the third quarter of 2008. Unlike the previous two recessions, this one exacts a heavy toll. Peak-to-trough, real output declines 2.7%, which is similar to the loss in real GDP during the 1973-75 and 1981-82 recession, which are considered two of the worst post-war contractions. Employment drops for nine straight quarters with a final tally of 4.5 million jobs lost. Over the longer term, GDP growth remains slower than in the baseline, mainly because productivity advances only 1.5% on average over the next ten years, compared to 1.9% in the baseline.

Idaho does not escape the ripple-effect of the national economic slowdown, the impacts of which are most prominent in 2009 and 2010. For example, Idaho nonfarm employment declines 2.2% next year and rises just 0.7% in the following year. In the baseline case employment shrinks 1.4% in 2009 then expands 1.4% in 2010. In the *Pessimistic Scenario*, the hiring pace picks up to 2.4% in 2011, to a total of 655,681 jobs. However, this does not make up for the ground lost in the previous two years, and employment in 2011 is about 15,100 lower in that year compared to the baseline. Idaho personal income also turns in a sub-par performance compared to the baseline. Nominal Idaho personal income growth drops below 3.0% in 2009 and 2010 compared to the baseline's 3.1% and 4.1% respective growth rates. At the end of the forecast period Idaho nominal personal income stands at \$54.4 billion—about \$1.6 billion below its baseline counterpart. As the accompanying table shows, Idaho real personal income is also lower in this scenario.